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13 BEFORE THE ARIZONA
14 STATE BOARD OF EDUCATION
15

16 In the Matter of:

Case No.: 2007-001

17
18 SADDLE MOUNTAIN UNIFIED
19 SCHOOL DISTRICT NO. 90.
20

PROPOSED FINDINGS OF FACT,
CONCLUSIONS OF LAW AND ORDER
APPOINTING A RECEIVER TO THE
SADDLE MOUNTAIN UNIFIED
SCHOOL DISTRICT NO. 90

21 The Arizona Attorney General ("Attorney General"), on behalf of the State of
22 Arizona, and the Executive Director of the Arizona State Board of Education (the "State
23 Board") request that the State Board adopt these Proposed Findings of Fact and
24 Conclusions of Law regarding the budget correction procedures of the Saddle Mountain
25 Unified School District No. 90. (the "District") and appoint a receiver pursuant to 2007
26

1 Arizona Session Laws, Chapter 234, §§ 5(D) and 6 and Arizona Revised Statutes
2 ("A.R.S.") § 15-103.

3 I. FINDINGS OF FACT

4 To the extent the following Findings of Fact constitute Conclusions of Law, they
5 are incorporated into the Conclusions of Law.

6 A. Introduction

7 1. Arizona public schools receive basic state aid based upon the number of students
8 in attendance. A.R.S. § 15-902. The student membership count plus additional funding
9 support for certain groups of students, such as English language learners and special
10 education students, form the Base Support Level for each school district. A.R.S. § 15-
11 943. A school district's Base Support Level in addition to other state funding it receives
12 determines a school district's annual budget limit. A.R.S. § 15-905.

13 2. Pursuant to A.R.S. § 15-905(E), a school district's governing board is required to
14 adopt a budget. The adopted budget consists of several budget categories such as
15 Maintenance and Operations, Unrestricted Capital and Soft Capital. A school district's
16 budget may not exceed the budget limits, as defined in A.R.S. § 15-947, in any of these
17 budget categories. A.R.S. § 15-905(E).

18 3. A school district must submit its adopted budget to the County School
19 Superintendent and the Superintendent of Public Instruction by July 18th of each year.
20 *Id.* The Superintendent of Public Instruction must review the school district's adopted
21 budget and notify the school district's governing board if the adopted budget is in excess
22 of the statutory limits set for each of the budget categories. *Id.*

23 4. On or before December 15th of each year, a school district's governing board
24 must adopt a revised budget conforming to the information provided by the
25 Superintendent of Public Instruction and submit the revised budget to the County School
26 Superintendent and the Superintendent of Public Instruction by December 18th. *Id.* A

1 school district may further revise its budget to adjust for growth in the student
2 population after the 100th day of school. A.R.S. § 15-948.

3 5. School districts that make expenditures in excess of their budget limits without
4 authorization as provided in A.R.S. § 15-907 must reduce their budget limits for the
5 subsequent fiscal year or, in the case of hardship, over the next two fiscal years
6 following the over-expenditures. A.R.S. § § 15-905(M) and 15-915(A).

7 6. A school district's revenue control limit is calculated by adding the Base Support
8 Level funding with the transportation revenue as calculated in A.R.S. §15-946. *See*
9 A.R.S. § 15-947.

10 B. Saddle Mountain Unified School District, No. 90

11 7. The District is an Arizona public school district, funded by public monies and
12 charged with the responsibility of educating students in grades kindergarten through
13 twelve.

14 8. The District, acting through its officers and employees, has the fiduciary
15 responsibility to safeguard the assets of the District to ensure they are used for a public
16 purpose and in a fiscally prudent manner.

17 9. For the past several years, the District's expenditures exceeded its revenue
18 control limit and budget capacity.

19 10. In fiscal year 2003-2004, the District had a general budget limit of approximately
20 \$3,926,335.00 and a revenue control limit of approximately \$3,311,019.00. In that same
21 year, the District over-expended its Maintenance and Operations budget by
22 approximately \$426,887.00, resulting in a 10.87 percent over-expenditure of the
23 District's general budget limit and a 12.89 percent over-expenditure of the District's
24 revenue control limit. *See* Exhibits "A" and "D" attached.

25 11. In fiscal year 2004-2005, the District had a general budget limit of approximately
26 \$4,363,909.00 and a revenue control limit of approximately \$3,793,630.00. In that same

1 year, the District over-expended its Maintenance and Operations budget by
2 approximately \$1,466,038.00, resulting in a 33.59 percent over-expenditure of the
3 District's general budget limit and a 38.64 percent over-expenditure of the District's
4 revenue control limit. *See* Exhibits "B" and "D" attached.

5 12. In fiscal year 2005-2006, the District had a general budget limit of approximately
6 \$5,067,982.00, an Unrestricted Capital budget of \$1,820,651.00, and a revenue control
7 limit of \$4,367,565.00. In that same year, the District over-expended both its
8 Maintenance and Operations budget by approximately \$1,210,784.00 and its
9 Unrestricted Capital budget by \$149,158.00. For fiscal year 2005-2006, the District
10 over-expended its general budget limit by 26.83 percent and its revenue control limit by
11 31.14 percent. *See* Exhibits "C" and "D" attached.

12 13. The Arizona Department of Education has not received the District's annual
13 financial reports for the current 2006-2007 fiscal year.

14 14. In May 2007, the Maricopa County School Superintendent informed the District
15 that it had exceeded its budget for the current fiscal year and that the County School
16 Superintendent would not draw future warrants in excess of that budget.

17 15. The Arizona Legislature passed and the Governor signed House Bill 2305 ("H.B.
18 2305" or "the Budget Correction Law") on May 24 and 25, 2007, respectively. This
19 new law requires the District to correct its over-expenditures over a five-year period
20 rather than the two-year period allowed by A.R.S. §§ 15-905(M) and 15-915(A). 2007
21 Ariz. Sess. Laws, ch. 234, §5(D). In addition, the Budget Correction Law mandates that
22 the State Board immediately appoint a receiver pursuant to A.R.S. § 15-103 for any
23 school district that uses the provisions of section 5, subsection D regarding budget
24 correction procedures. 2007 Ariz. Sess. Laws, ch. 234, § 6. The Budget Correction Law
25 became effective immediately pursuant to an emergency clause. 2007 Ariz. Sess. Laws,
26 ch. 234, § 7.

16. The District's total over-expenditure for fiscal years 2003-2004 through fiscal years 2005-2006 is approximately \$3,252,867.00. *See* Exhibit "D" attached.

17. The District did not receive state aid for equalization assistance for fiscal years 2005-2006 and 2006-2007. *See* Exhibit "E" attached.

18. The Districts 100th day student count as calculated pursuant to A.R.S. § 15-902 is 902.556. *See* Exhibit "F" attached.

II. CONCLUSIONS OF LAW

To the extent the following Conclusions of Law constitute Findings of Fact, they are incorporated into the Findings of Fact.

1. The State Board has the jurisdiction and the authority to place school districts in receivership pursuant to A.R.S. § 15-103 and the Budget Correction Law. A.R.S. § 15-103 and 2007 Ariz. Sess. Laws, ch. 234, §§ 5(D) and 6.

2. Section 5(D) of the Budget Correction Law states that, notwithstanding the limitations set forth in A.R.S. §§ 15-905 and 15-915, a school district that over-expended its budget in fiscal years 2003-2004, 2004-2005, and 2005-2006 is required to correct those over-expenditures over a five-year period plus any over-expenditures for fiscal year 2006-2007 in equal installments beginning in fiscal year 2007-2008 and ending in fiscal year fiscal year 2011-2012. 2007 Ariz. Sess. Laws, ch. 234, § 5(D).

3. Section 5(D) of the Budget Correction Law also states that a school district shall take advantage of the five year correction period if: (1) the school district's total amount of over-expenditures in fiscal years 2003-2004 through 2005-2006 that needs to be corrected is more than three million dollars but less than three million four hundred thousand dollars; (2) the school district did not receive state aid for equalization assistance for fiscal years 2005-2006 and 2006-2007; and (3) the school district's

1 student count as calculated pursuant to A.R.S. § 15-902 is more than eight hundred but
2 less than nine hundred-twenty. 2007 Ariz. Sess. Laws, ch. 234, § 5(D).

3 4. Section 6 of the Budget Correction Law states that the State Board shall
4 immediately appoint a receiver pursuant to A.R.S. § 15-103 for any school district that
5 uses the provisions in section 5(D) of the act. 2007 Ariz. Sess. Laws, ch. 234, § 6.

6 5. The District falls within the parameters of section 5(D) of the Budget Correction
7 Law. Specifically, the District's total amount of over-expenditure in fiscal years 2003-
8 2004 through 2005-2006 is approximately \$3,252,867.00; the District did not receive
9 state aid for equalization assistance for fiscal years 2005-2006 and 2006-2007; and the
10 District's student count as calculated pursuant to A.R.S. § 15-902 is 902.556. Therefore,
11 the Board shall place the District in immediate receivership pursuant to 2007 Arizona
12 Session Laws, Chapter 234, Section 6.

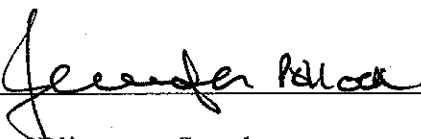
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14 III. ORDER

15 THEREFORE, based upon the foregoing, the State Board finds that the District
16 meets the parameters delineated in 2007 Arizona Session Laws, Chapter 234, Section
17 5(D) regarding budget correction procedures. The State Board hereby places the District
18 in immediate receivership in accordance with 2007 Arizona Session Laws, Chapter 234,
19 Section 6 and A.R.S. § 15-103. The receiver shall execute its duties and responsibilities
20 as delineated in A.R.S. § 15-103 immediately upon appointment by the State Board.

21
22 RESPECTFULLY SUBMITTED this 22 day of June, 2007.

23 TERRY GODDARD
24 Attorney General

25 By



26 Susan Plimpton Segal,
Public Advocacy Division Chief

Jennifer Pollock,
Assistant Attorney General
Chad Sampson,
Assistant Attorney General

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